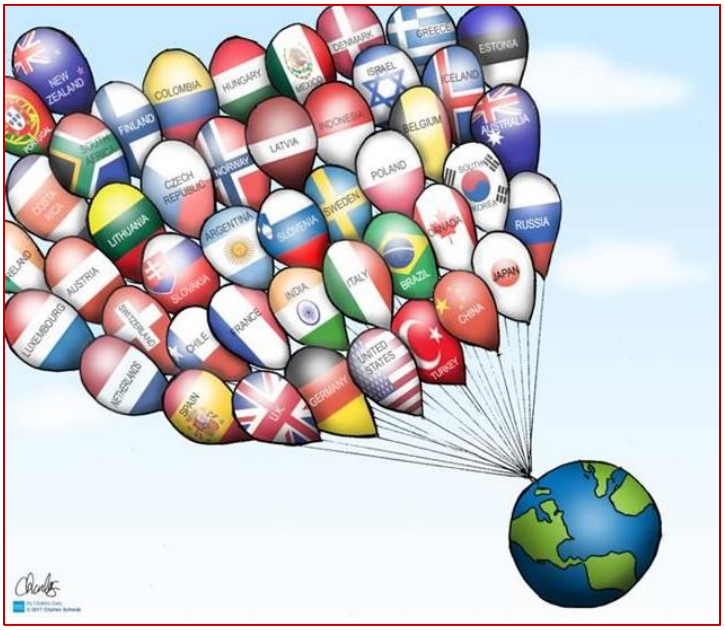
TG Macro
Point Lookout Recap
2017 Year End



2017 Closing Prices:

SPX	2,673	+20%
DOW	24,719	+25%
NASDAQ	6,903	+31%
US2Y yield	1.88%	
US10Y yield	2.40%	
DXY	92.12	
EUR/USD	€1.2005	
USD/JPY	¥112.69	
OIL	$60.42	
GOLD	$1,302	

Equities

The S&P completed 2017 with 12 straight months of gains and a 14-month long winning streak. A look at the leadership tells the story of a confidence driven technological revolution. The Nasdaq 100 (QQQ) led all major indices with a 31% gain on the year. The Dow Jones staged a late year surge to end with a 25% gain. The S&P 500 (SPY) gained 19% and the Russell 2000 gained 11%. The performance has caused the U.S. stock market capitalization as a percentage of GDP to reach a record of 184% (chart page 2).

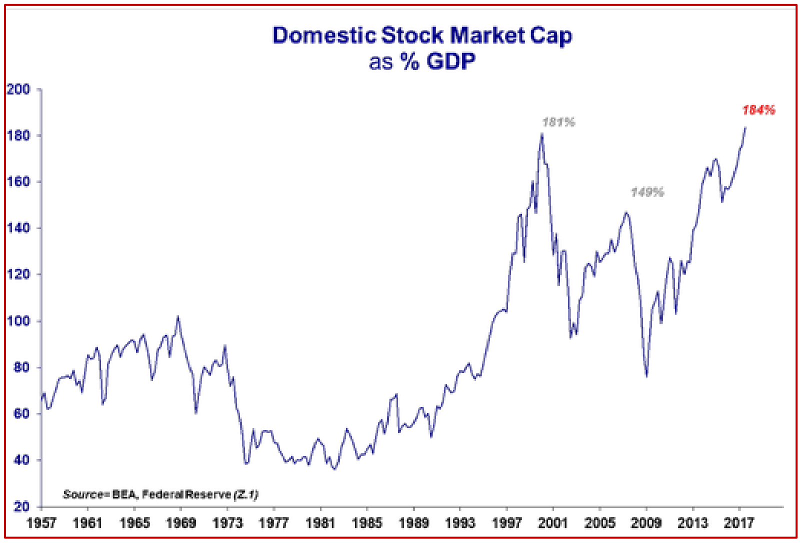
Markets were fueled by the effect President Trump is having on the U.S. economy and synchronized global growth. U.S. confidence was booming all year from Wall St. to Main St. All measures of positive sentiment from University of Michigan Consumer Sentiment to NFIB Small Business Confidence and the Bloomberg Consumer Comfort Index generated increasingly positive outlooks. Markets celebrated upbeat economic data, especially in the manufacturing sector, and a late year tax plan that reduced corporate tax rates from 35% to 21%. Global economic data firmed up as The IMF raised its 2017 and 2018 global GDP growth forecast to 3.6% and 3.7% respectively.

Passive investing strategies flourished in 2017. The number of market indexes now exceeds the number of U.S. stocks. Short volatility strategies (XIV) with the VIX hovering around 10 all year, became the 800lb gorilla in the room. Most experts admit that position is eventually likely to cause a major dislocation in the markets. The New York Fed published a note titled **"The Low Volatility Puzzle: Are Investors Complacent?"** Elementary evidence confirms they are.

Five of the leading S&P subsectors were all in the technology space with large magnitude gains. Social media (SOCL) gained 52%, robotics (ROBO) 44%, software (IGV) 42%, internet companies (FDN) 37% and semiconductor manufacturers (SMH) 36%. The FAANG complex put up double digit gains and their enormous market capitalization helped drive major indices. Amazon (AMZN), Netflix (NFLX), and Facebook (FB) all posted gains over 50%. Apple (AAPL) gained 46% and Google (GOOGL) 33%. The outspoken voice of Scott Galloway, and the release of his book "The Four", began casting light on the preferential treatment America's biggest tech companies are privy to over every other business. Their ability to collect your personal data to trigger marketing decisions was never approved, and has never been more widespread. By the end of 2017, the main stream media was publicly rejecting Big Tech's privacy invasions and privileges.

Homebuilders (XHB) were a top industrial subsector with 30% gains on a perfect storm in the housing market. The supply of existing homes is shrinking, the number of new homes being built is recovering from the post-crisis lows, and the prices of existing homes are rallying due to persistently low borrowing costs in the long end of the curve.

Trump's proposed 10% hike in military spending ($54 billion) that would cut nonmilitary programs by the same amount helped the aerospace & defense sector (ITA) rally 33% on the year.



Basic materials (XLB) and chemicals (IYM) helped drive the industrial sector (XLI). All three ended the year up 22%. Industrial metals and mining (XME) rallied 20% in a late year technical breakout. Airlines (JETS) rallied 18%. All sectors are benefitting from less regulation, lower taxes, and a pending infrastructure spending plan out of D.C.

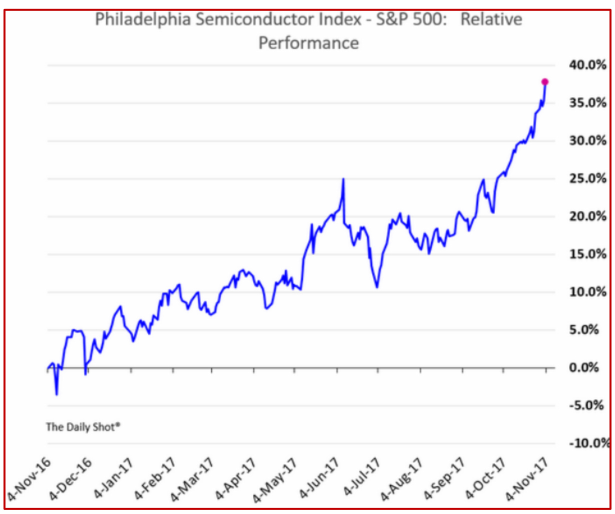
Financials (XLF) gained 20% on the year. President Trump nominated Jerome Powell to succeed Janet Yellen as Fed Chairman. His posture toward the economy is likely to mirror that of Janet Yellen. His posture toward scaling back Dodd Frank helped banks and brokerages extend a late year rally. Gold miners (GDX) gained 11%, consumer staples (XLP) 10%, and utilities 8% on the year. Retail's relative underperformance (XRT, up 2.5%) rhymes with 8,000 U.S. retail store closures in 2017.

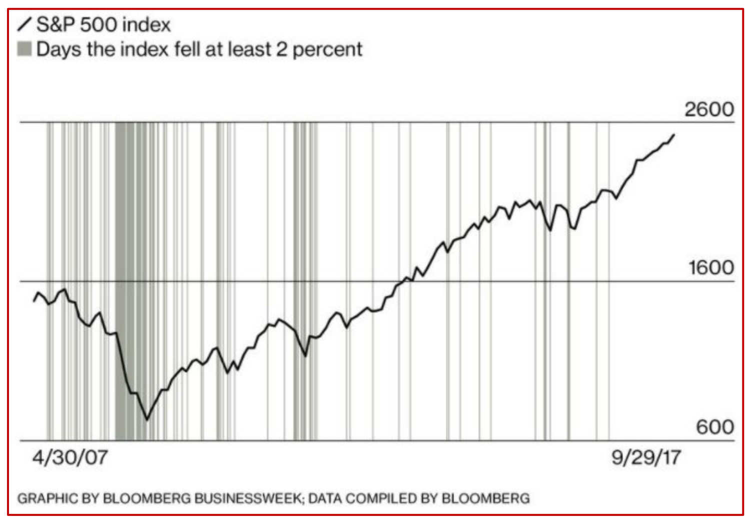
Energy continued to underperform despite firm oil prices in the second half of the year. Oil services (OIH) lost 21% and exploration & production (XLE) lost 4%.

Around the world, the Nikkei gained 18% in 2017, the German DAX gained 13% and the Eurostoxx 50 gained 6% on the year.

Equity News

- Amazon bought Whole Foods in a $13.7B deal within a $700B industry during June 2017.
- Walt Disney (DIS) announced its intent to acquire 21st Century Fox (FOXA) for $52.4B.
- Google was fined $2.7B by the EU for skewing searches.
- Hedge funds bullish bets on stocks reached a record level. [CNBC]
- Constellation Brands (STZ) is the first major alcohol company to formally move into the cannabis space with their 9.9% stake in Canopy Growth (WEED CN). Constellation will develop non-alcoholic cannabis infused beverages before the legalization in July of 2018.
- **"I don't think we're ever going to lose money again. We have an industry that's going to be profitable in good and bad times." -** American Airlines CEO Doug Parker - **Forbes**
- The lithium ETF (LIT) rallied 60% on the year. The global lithium-ion battery market is expected to reach $93B by 2025 due to use in electric vehicles and charging stations.
- Semiconductors ferocious outperformance this year is linked to the widespread growth of Bitcoin (chart below).
- Velocityshares Daily Inverse VIX Short-Term ETN **XIV**, based on the inverse performance of the underlying S&P 500 VIX Futures Index, returned just shy of 200% on the year. A graphic of the number of days the S&P fell 2% is below. The occurrence has become unheard of.



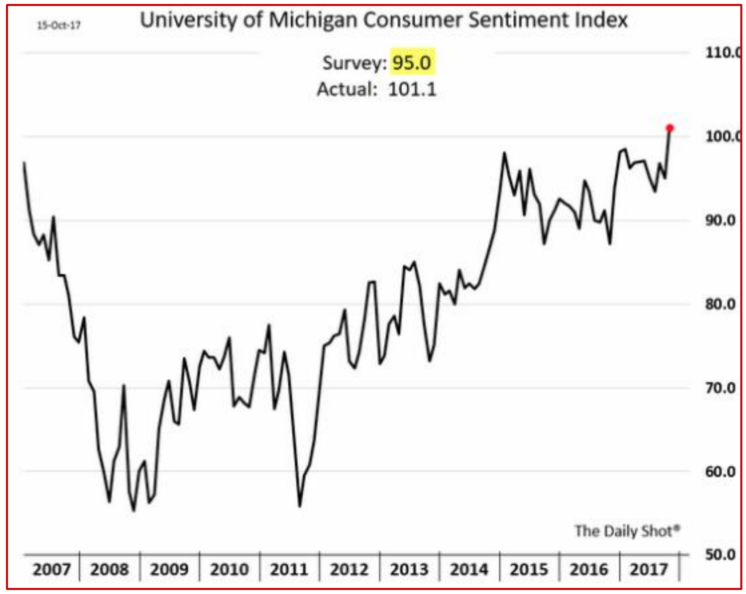


The Trump Effect

Accomplishments in President Trump's first 100 Days that directly affect global markets included the U.S. withdrawal from the Trans Pacific Partnership, lifting restrictions on shale production, lifting restrictions on enforcing immigration law, expedited infrastructure projects, expanded drilling capabilities and environmental approvals, and approved construction of the Keystone Pipeline. By May the House of Representatives passed a health care reform bill which should help healthcare become more available for a lower cost.

The Trump Administration laid out its plan to overhaul bank rules, had his travel ban injunction lifted by the U.S. Supreme Court, and is considering a tougher stance on China trade that could include steel tariffs.

"I am not anti-trade. I am pro-trade. But I am pro-sensible trade, not trade that is detrimental to the American worker and to the domestic manufacturing base." - Commerce Secretary Wilbur Ross



President Trump secured a debt-ceiling extension until mid-December with a $7.85B installment for Harvey victims.

D.C. passed a national tax overhaul late in the year that lowered the corporate rate from 35% to 21%.

In a show of strength, President Trump said that North Korea must de-nuclearize and if attacked, the U.S. would have no choice but to destroy them.

Trump operated for the entire year with a constant onslaught of negative bias and often fake news stories out of the major news outlets about Russia meddling in the 2016 election.

"There are literally no standards now – journalistic, ethical, or rational – when it comes to accusing people of being Kremlin operatives." – Glenn Greenwald

The Federal Reserve

"I see roughly equal odds that the U.S. economy's performance will be somewhat stronger or somewhat less strong than we currently project." – Janet Yellen, Federal Reserve Chair channeling Ben Stiller in *Meet the Parents*

The U.S. Federal Reserve December rate hike of 25 basis points turned out to be the third rate hike of 2017. Economists are projecting three rate hikes in 2018 while futures markets are pricing in the probability of 2.2. Simultaneously, U.S debt issuance is about to hit an 8-year high of $1.3T in 2018 as the Fed begins reducing its balance sheet.

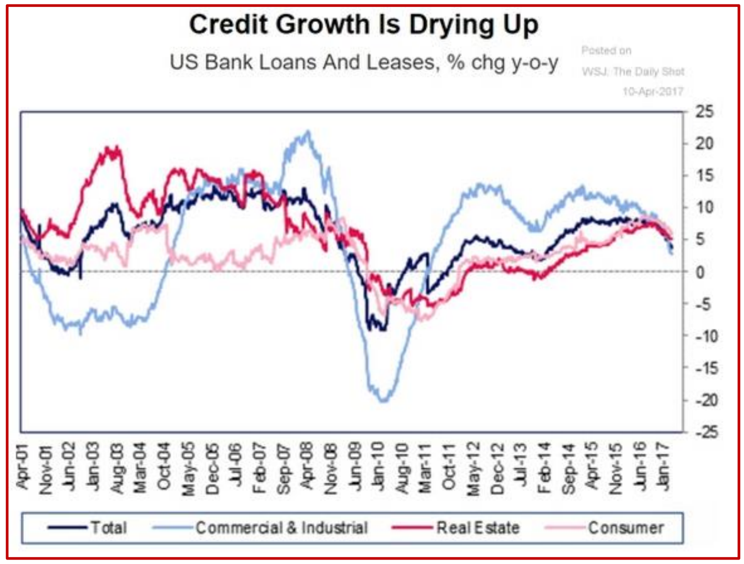
US2Y yields rallied from 1.20% to 1.90%. US 10Y yields fluctuated between 2.60% in January and 2.00% in September only to settle unchanged on the year at 2.40%. US 30Y yields fell from 3.05% to 2.74% causing an extreme steepening of the yield curve to historic levels (US2Y/US10Y chart right.)

Three steep dips of over 2% in high yield indices (HYG, JNK) caused by lurches higher in U.S. yields caused massive money flow out of the crowded sector.

The New York Fed released its Q3 Household Debt and Credit Report. The NY Fed headlined the data:

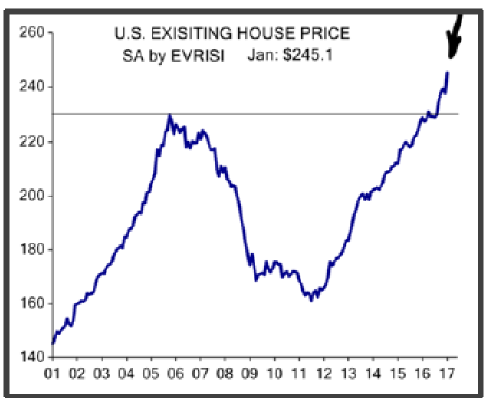
"Delinquency flows show persistent increases for auto & credit card debt: over past year for credit card debt & past several years for auto loans."

As a result of their quantitative easing programs, the world's six central banks hold more than $15T in assets, $9T of which are government bonds. The ECB and BOJ balance sheets have expanded beyond that of the U.S. Federal Reserve. The ECB holds $2T in government bonds on their $4.9T balance sheet. The BOJ holds $4.53T of which 85% is JGB's.

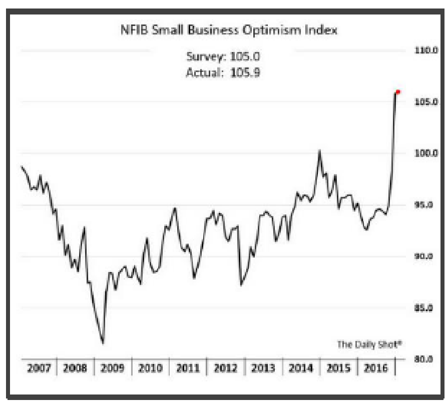


Credit traders are concerned about the decline in consumer loans, bank loans, and leases which are not the hallmarks of an industry about to undergo deregulation. Other signs of economic caution include the U.S. savings rate plunging to the lowest level since December 2007, when the last recession started. U.S. real wage growth has begun to decline.

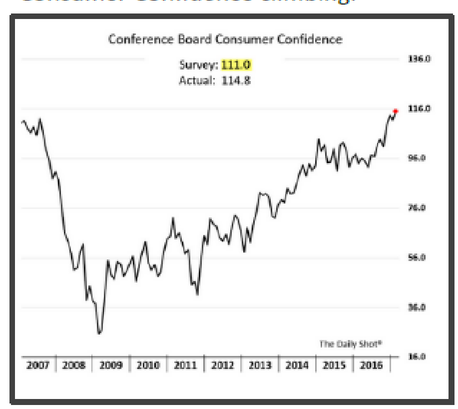
New high in existing U.S. house prices.



NFIB Small Business Optimism spiking



Consumer Confidence climbing.



Global Economy

The global economy saw its best performance since 2011. Only 7 times in the last 30 years has every G20 economy ended the year with positive GDP growth.

By the end of the first quarter of 2017 major economies established a reasonable growth path alongside upticks in global trade. By the third quarter, there was clear evidence of improvements to the manufacturing sector with the U.S., U.K., China, Germany, and France all registering Purchasing Managers Index readings above 50, signaling economic expansion.

The IMF accordingly raised its 2017 and 2018 Global GDP growth forecasts to 3.6% and 3.7% respectively. They said

Europe's recovery was spilling over to the rest of the world. They see European GDP growth at 2.4% in 2018 up from 1.7%.

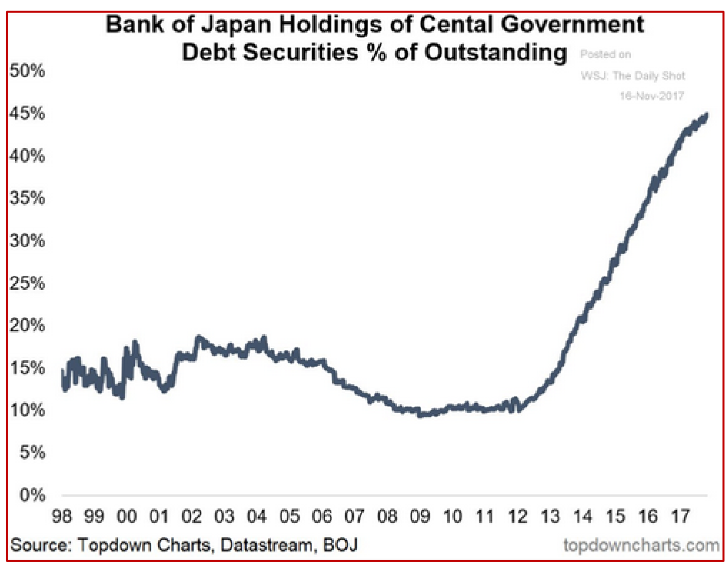
Mario Draghi indicated ECB policy would become less accommodative in 2018 which spiked yields across Europe. German 10Y yields traded between 0.20% - 0.60% for the majority of the year. Given current economic strength, European High Yield continues to carve new lows in yield, trading roughly flat to U.S. Treasuries. Emmanuel Macron defeated Marine Le Pen removing the uncertainty of the French Presidential election and the euro rallied in response.

UK - The United Kingdom is scheduled to leave the EU at the end of March 2019. In the absence of any agreement between the UK and the EU on a new relationship or a transitional arrangement, the UK would effectively become a 'third country' when trading with EU member states. GDP growth eased to 1.5% in 2017 and the OECD forecasts the economy to weaken in 2018 and 2019. Unemployment fell to 4.5%, the lowest reading since 1975. Inflation has risen to 3%.

China - China made progress expanding its seat at the table of global relevance. Their 'Belt and Road' forum in May showcased Xi Xinping's ability to attract global interest. His speech at the Asia-Pacific Economic Corporation Leaders Meeting in Vietnam promoted globalization and free trade. China shut down tens of thousands of factories across their vast landscape in an unprecedented pollution crackdown proving they were finally getting serious about international standards. China's Ministry of Environment charged more than 80,000 factories with criminal offenses. It has dramatically altered China's production and consumption of natural resources. The yuan experienced a significant 5% rally versus the U.S. dollar as their 10Y yield climbed steadily from 3.00% to nearly 4.00%.

Japan - Japan will continue their monetary easing program until headline inflation becomes apparent. Their GDP grew at a 1.5% annualized pace in 2017. The BOJ indicated they would continue easing until CPI hits their 2% target. OECD forecasts are for 1.2% growth in 2018 and 1% in 2019.

Via their quantitative easing program, the Bank of Japan has ¥20.3T of equity ETF's on its balance sheet as of the end of September, which is up ¥4.4T from six months ago. It equals 2.5X the Bank of Japan's capital of ¥8.1T. They also own 45% of the JGB market. The bank has unrealized gains of ¥4.2T, which will accumulate losses in a reserve should they go below average price, which would affect its capital. This dynamic has caused asset managers and levered funds to load up on Nikkei futures.



"Since we began aggressive monetary easing, economic conditions have improved but the consumer price increase is only at 0.7% and far from the 2% price stability target. It will be worth considering adjusting the yield curve as prices rise but it is too early to have a specific debate at this point."
– BOJ Governor Haruhiko Kuroda

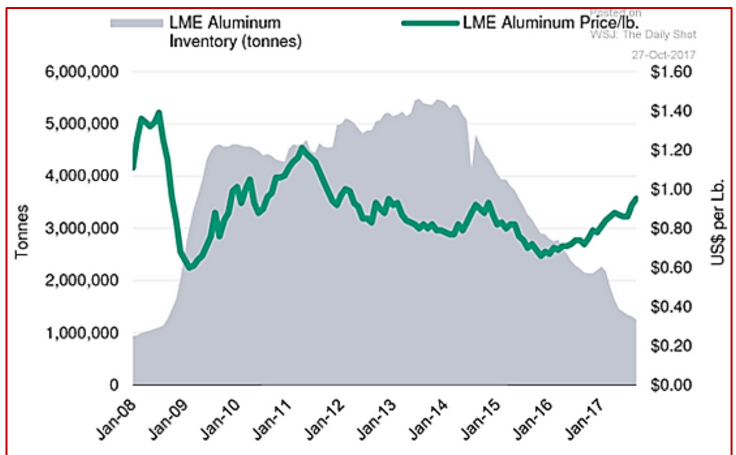
Commodities

The year in commodities was the tale of two extremes. The best performers were palladium (up 55%) and lumber (up 33%). Natural gas fell 35% and grain markets gave up 10% to historic lows. The net result was a 1% gain in the Bloomberg Commodities Index (below) after spending the year carving a sturdy technical bottom.

Metals - LME aluminum gained 35%, copper gained 30%, zinc gained 28%, and nickel gained 26%. Base metal strength was driven by dollar weakness, global growth, pending infrastructure, and upticks in headline inflation. China shut in 4M of their 32M tons of 2016 aluminum supply to comply with environmental regulations. The Hongqiao province also cut 2.7M tons, over 30%, of their capacity.

Gold gained 13% on the year in its rally from $1,150 to $1,300. The strength was spurred by the onset of headline inflation. Gold bulls were gravely disappointed by gold's September failure at $1,350. Silver gained 5% on the year.

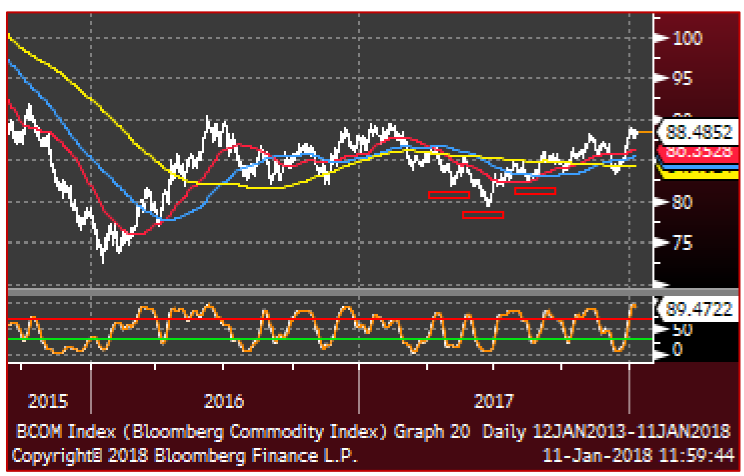
Supply concerns at major copper producing areas and a strike at the Escondida mine in Chile kept the copper market firm. Freeport McMoRan (FCX) remains in negotiations with the Indonesian Government as to which part of the Grasberg mine they will spin out. This decision has meaningful ramifications for FCX as they transition back to be a pure levered copper play. Nickel has been supported by the potential closure of Philippine mines accused of polluting. Supply chain bottlenecks in iron ore and coal markets rallied the price of steel into year-end. Chinese imports of 28 million tons of iron ore have caused vessels to anchor off eastern Australia, causing up to 3-week delays (Banchero, Singapore). Contact with dealer desks confirms [hedge fund buying] was a consistent theme of the year.

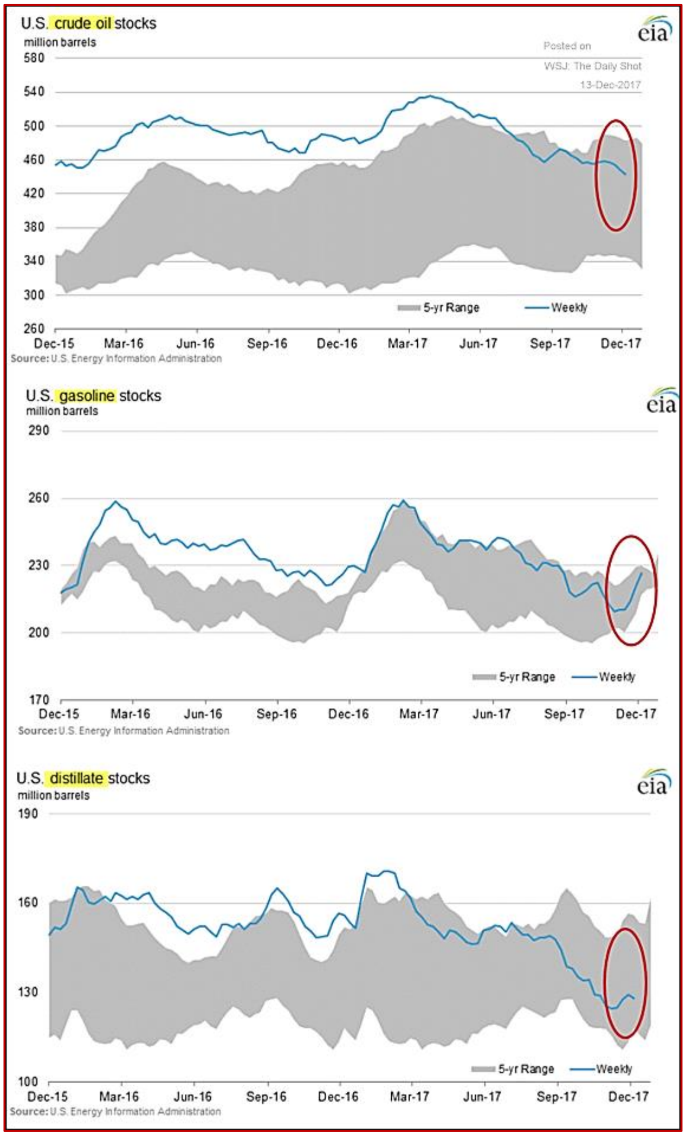


Source: London Metal Exchange

Agriculture - Lumber's outsized gain was driven by the North American housing market and the threat of NAFTA being abandoned.

The wheat market fell to historic lows in December of 2017 at $4.10 after a summer rally spiked prices as high as $6.00. Corn fell 10% from $3.90 to $3.50, off 10% on the year. Brazilian corn production expanded to a new record over 90M metric tons. Outstanding crop conditions led to huge domestic production keeping a further lid on prices. Soybeans lost 3% to finish at $9.60. Lean hog prices gained 9% with increased global consumption in a steady uptrend. Live cattle prices were volatile but ended the year with minimal gains.





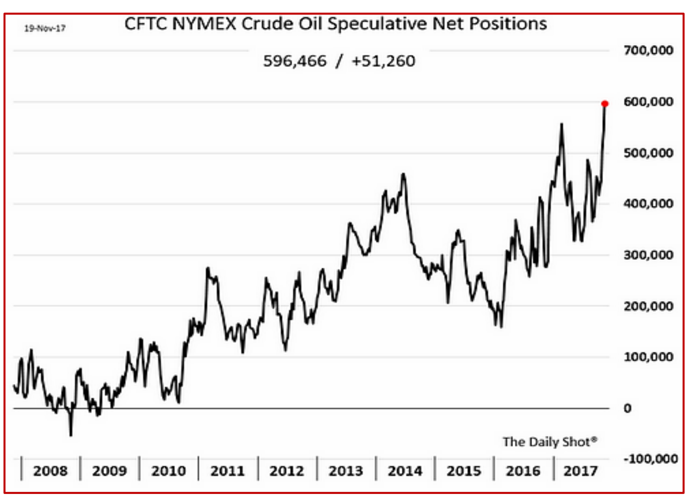
Energy - Crude oil futures rallied 12% in 2017 after spending the first 10 months of the year carving a bottom near $40. The summer of 2017 saw Hurricane Harvey strike southern Texas, which shut down roughly 22% of daily oil output and 25% of gasoline production in the Gulf of Mexico.

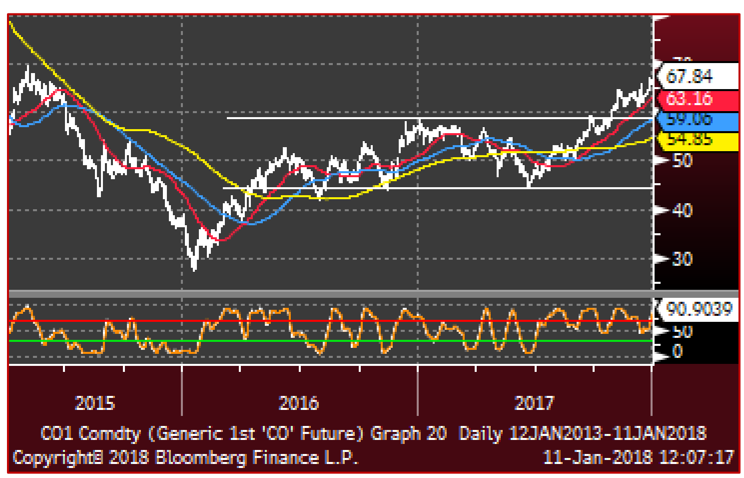
Saudi Oil Minister Khalid al-Falih led OPEC's campaign to enforce production cuts. While compliance was spotty early on, Saudi Arabia's compliance stood out as the determining factor in the oil market this year.

While Brent crude oil (chart below) led the charge due to robust European demand, sending it $7 over WTI, heating oil rallied 21% and unleaded gasoline rallied 11%. All OPEC members allegedly support production cuts through the end of 2018. Stockpiles continue to shrink back toward their 5-year ranges as the commodity pivots to backwardation.

U.S. oil production has been hovering near its 2015 peak, but global demand has kept market structure firm. Speculative length in energy futures ended the year at record levels offsetting some of the forward sales made by producers.

Natural gas struggled on the year due to a combination of weak pricing conditions and the well supplied contango structure. America's gas production set a record in 2017 of 73.5 billion cubic feet per day and is projected to do the same in 2018. Pipelines can now carry an extra 7 billion cubic feet away from the Appalachian region. Rising oil production in the Permian is also contributing to natural gas supply.





Foreign Exchange – The U.S. dollar trended lower in 2017.

Haters will say it's fake, but the dollar index (DXY) spent 2017 in a steady down trend. The dollar fell from its peak around 104 to close on the lows at 92.00 for a loss of 10%. The slide began with President Trump's first press conference and persisted throughout the year as he accomplished several agenda items. Trump tax cuts and infrastructure spending are expected to significantly widen the U.S. deficit and weaken the currency. As Treasury Secretary nominee, Steve Mnuchin said that a strong dollar could have negative short-term effects on the economy. As Treasury Secretary, he said the dollar and stock market strength reflects confidence in the Trump agenda but that **"there are certain issues"** with the dollar's persistent strength. After the above photo circulated, the weak dollar tone was set.

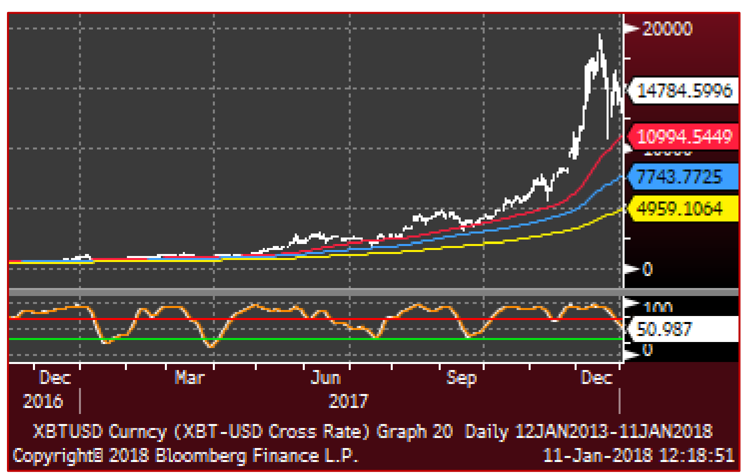
The euro appreciated 14% on the year in its move from €1.05 to €1.2000, driven by a substantial economic recovery in the Eurozone. The pound rallied 10% versus the dollar trading from €1.2500 to £1.3500. The Brexit process has been rocky but intact, mirroring the pound's technical trend off the £1.2000 bottom.

The Aussie dollar firmed against the U.S. with strong natural resource prices. The currency gained 8% from the start of the year at .7200 to its close at .7800 versus the dollar. The Canadian looney gained 7% driven by a stronger economy, higher oil price, and national housing boom. The Swiss franc and Japanese yen gained 3% versus the dollar in low volatility, pegged rate type trading.

Bitcoin stole the currency market show with a 1400% rally in its 2017 voyage from $1,000 to $14,300 via a high print of nearly $20,000 per bitcoin. The "currency with no central bank" seems to be partially taking over gold's role as an expression of central bank irresponsibility and flight to safety during chaos. Speculators were attracted to the market due to the distributive ledger properties of the blockchain and the finite number of bitcoins at 21,000,000.

In a possible sign of the monetary apocalypse, Coinbase reported in November it now has more accounts than traditional brokerage [Charles Schwab.]

"Hacking data stored on a Blockchain is the equivalent of turning a processed Chicken McNugget back into a chicken; quite impossible." - Don Tapscott



Miscellaneous:

➢ The Economist coins “**The bull market in everything**” cover as household sentiment suggests there has never been a better time to buy stocks.

➢ A Leonardo da Vinci painting sold for $450M to Saudi Sheik Mohammad bin Salman.

➢ The **“distracted boyfriend”** meme was one of the most popular of 2017.

➢ The Tweet that got away… **COVFEFE**

➢ Tom Brady engineered the greatest comeback of all time to become arguably the greatest football player of all time, and to win his 5th Super Bowl 34-28. Bill Belichick and the Patriots won their 2nd Super Bowl in three years.

➢ The NFL began suffering attendance slumps when players, led by Colin Kaepernick began kneeling for the national anthem to protest racial inequality in America.

➢ The Houston Astros defeated the Los Angeles Dodgers in 7 games to win their first World Series in franchise history. The win by Houston, who suffered through Hurricane Harvey over the summer, was a standout for karma freaks around the globe as Hollywood, at the heart of Los Angeles, went down in sexual harrassment flames.

➢ It was an awful year for rock and roll with the loss of Chris Cornell, Gregg Allman, Butch Trucks, Gordon Downie, Glenn Campbell, Chester Bennington, Malcolm Young, Walter Beck, and Tom Petty.